

State of South Carolina



Office of the State Auditor

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COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

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August 20, 2001

Ms. Martha Hughey, Assistant Vice President of Reimbursement
National Healthcare Corporation
100 East Vine Street
Murfreesboro, Tennessee 37130

Re: AC# 3-AND-J8 – National Healthcorp L.P.
d/b/a Anderson Health Care Center

Dear Ms. Hughey:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

A handwritten signature in black ink, appearing to read "James McLamou", written over a printed name.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph Hayes
Mr. Brad Moorhouse

**NATIONAL HEALTHCORP L.P.
D/B/A ANDERSON HEALTH CARE CENTER**

ANDERSON, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 1999
AC# 3-AND-J8**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

December 1, 2000

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with National Healthcorp L.P. d/b/a Anderson Health Care Center, for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.


The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by National Healthcorp L.P. d/b/a Anderson Health Care Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and National Healthcorp L.P. d/b/a Anderson Health Care Center dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
December 1, 2000

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

A handwritten signature in black ink, appearing to read "Thomas L. Wagner, Jr.", with a stylized flourish at the end.

Thomas L. Wagner, Jr., CPA
State Auditor

NATIONAL HEALTHCORP, L.P.
D/B/A ANDERSON HEALTH CARE CENTER

Computation of Rate Change
For the Contract Period
Beginning October 1, 1999
AC# 3-AND-J8

	10/01/99
	<u>09/30/00</u>
Interim reimbursement rate (1)	\$102.51
Adjusted reimbursement rate	<u>102.17</u>
Decrease in reimbursement rate	\$ <u>.34</u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999

NATIONAL HEALTHCORP, L.P.
D/B/A ANDERSON HEALTH CARE CENTER

Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1999 Through September 30, 2000
AC# 3-AND-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$49.13	\$50.88	
Dietary		10.44	9.69	
Laundry/Housekeeping/Maint.		<u>7.18</u>	<u>8.24</u>	
Subtotal	\$ <u>2.06</u>	66.75	68.81	\$ 66.75
Administration & Med. Rec.	\$ <u>.06</u>	<u>11.50</u>	<u>11.56</u>	<u>11.50</u>
Subtotal		78.25	<u>\$80.37</u>	78.25
<u>Costs Not Subject to Standards:</u>				
Utilities		2.06		2.06
Special Services		.17		.17
Medical Supplies & Oxygen		5.02		5.02
Taxes and Insurance		2.10		2.10
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$87.60</u>		87.60
Inflation Factor (3.00%)				2.63
Cost of Capital				13.05
Cost of Capital Limitation				(4.47)
Profit Incentive (Maximum 3.5% of Allowable Cost)				.06
Cost Incentive				2.06
Effect of \$1.75 Cap on Cost/Profit Incentives				(.37)
CNA Add-On				.75
Nurse Aide Staffing Add-On				<u>.86</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$102.17</u>

NATIONAL HEALTHCORP, L.P.
D/B/A ANDERSON HEALTH CARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-AND-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Adjustments</u>		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$3,605,601	\$73,349 (6)	\$ 5,019 (1) 1,338 (1) 19,280 (4) 3,080 (5) 88,209 (7)	\$3,562,024
Dietary	758,990	328,932 (6)	3,011 (1) 328,022 (7)	756,889
Laundry	113,769	47,851 (6)	48,867 (7)	112,753
Housekeeping	229,341	113,168 (6)	107,849 (7)	234,660
Maintenance	170,035	85,633 (6)	383 (1) 82,034 (7)	173,251
Administration & Medical Records	1,499,789	353,984 (6) 30,492 (6)	790,446 (1) 709 (1) 228,845 (7) 30,357 (7)	833,908
Utilities	145,803	71,551 (6)	68,156 (7)	149,198
Special Services	13,066	-	448 (1)	12,618
Medical Supplies & Oxygen	364,050	-	-	364,050
Taxes & Insurance	152,513	69,546 (6)	4,921 (1) 64,774 (7)	152,364

NATIONAL HEALTHCORP, L.P.
D/B/A ANDERSON HEALTH CARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-AND-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted Totals
Legal Fees	-	-	-	-
Cost of Capital	989,131	60,470 (6) 66,185 (8)	2,354 (1) 43,401 (1) 60,457 (2) 63,664 (7)	945,910
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal	8,042,088	1,301,161	2,045,624	7,297,625
Ancillary	18,664	-	-	18,664
Non-Allowable	3,541,439	852,030 (1) 60,457 (2) 5,736 (3) 19,280 (4) 3,080 (5) 1,110,777 (7)	5,736 (3) 1,234,976 (6) 66,185 (8)	4,285,902
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$11,602,191</u>	<u>\$3,352,521</u>	<u>\$3,352,521</u>	<u>\$11,602,191</u>
Total Patient Days	<u>72,504</u>	<u>-</u>	<u>-</u>	<u>72,504</u>
TOTAL BEDS	<u>202</u>			

NATIONAL HEALTHCORP, L.P.
D/B/A ANDERSON HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-AND-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable	\$ 852,030	
	Nursing		\$ 5,019
	Restorative		1,338
	Dietary		3,011
	Maintenance		383
	Administration		790,446
	Medical Records		709
	Taxes, Insurance, Licenses		4,921
	Special Services		448
	Cost of Capital		2,354
	Cost of Capital - Excess Interest		43,401
	To adjust home office cost HIM-15-1, Section 2304		
2	Nonallowable	60,457	
	Accumulated Depreciation	608,826	
	Other Equity		237,170
	Fixed Assets		371,656
	Cost of Capital		60,457
	To adjust fixed assets and related depreciation HIM-15-1, Sections 100		
3	Fixed Assets - Noncertified Wing	210,084	
	Depreciation Expense - Noncertified Wing	5,736	
	Other Equity	7,191	
	Nonallowable		5,736
	Accumulated Depreciation - Noncertified Wing		217,275
	To adjust fixed assets and related depreciation associated with the noncertified wing HIM-15-1, Sections 100 and 2302.1		
4	Nonallowable	19,280	
	Nursing		19,280
	To adjust direct allocation of nurses salaries and fringe benefits to the noncertified wing HIM-15-1, Sections 2102.3 and 2304		

NATIONAL HEALTHCORP, L.P.
D/B/A ANDERSON HEALTH CARE CENTER

Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-AND-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable Nursing	3,080	3,080
	To adjust direct allocation of Nurse's Fringe Benefits to the Noncertified Wing HIM-15-1, Sections 2102.3 and 2304		
6	Restorative	73,349	
	Dietary	328,932	
	Laundry	47,851	
	Housekeeping	113,168	
	Maintenance	85,633	
	Administration	353,984	
	Medical Records	30,492	
	Utilities	71,551	
	Taxes, Insurance, Licenses	69,546	
	Cost of Capital	60,470	
	Nonallowable		1,234,976
	To reverse DH&HS adjustment to remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
7	Nonallowable	1,110,777	
	Restorative		88,209
	Dietary		328,022
	Laundry		48,867
	Housekeeping		107,849
	Maintenance		82,034
	Administration		228,845
	Medical Records		30,357
	Utilities		68,156
	Taxes, Insurance, Licenses		64,774
	Cost of Capital		63,664
	To remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

NATIONAL HEALTHCORP, L.P.
D/B/A ANDERSON HEALTH CARE CENTER

Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-AND-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
8	Cost of Capital Nonallowable	66,185	66,185
	To adjust capital return to allowable State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$4,178,622</u>	<u>\$4,178,622</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

NATIONAL HEALTHCORP, L.P.
D/B/A ANDERSON HEALTH CARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-AND-J8

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.2493</u>
Deemed Asset Value (Per Bed)	35,130
Number of Beds	<u>202</u>
Deemed Asset Value	7,096,260
Improvements Since 1981	6,025,128
Accumulated Depreciation at 9/30/98	<u>(4,083,822)</u>
Deemed Depreciated Value	9,037,566
Market Rate of Return	<u>.063</u>
Total Annual Return	569,367
Return Applicable to Non-Reimbursable Cost Centers	(48,774)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>19,750</u>
Allowable Annual Return	540,343
Depreciation Expense	528,491
Amortization Expense	6,729
Capital Related Income Offsets	(65,989)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(63,664)</u>
Allowable Cost of Capital Expense	945,910
Total Patient Days (Actual Days)	<u>72,504</u>
Cost of Capital Per Diem	\$ <u><u>13.05</u></u>

NATIONAL HEALTHCORP, L.P.
D/B/A ANDERSON HEALTH CARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-AND-J8

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 4.59
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>8.58</u>
Reimbursable Cost of Capital Per Diem	\$ 8.58
Cost of Capital Per Diem	<u>13.05</u>
Cost of Capital Per Diem Limitation	\$ <u>(4.47)</u>

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